

**New Mexico
Public Employees Retirement Association
SmartSave Committee
September 14, 2021**

1. Call to Order

This meeting of the New Mexico PERA SmartSave Committee was held on the date cited above via Zoom tele/video conferencing. Acting Chair Roberto Ramirez called the meeting to order at approximately 9:05 a.m.

2. Pledge of Allegiance.

3. Roll Call

The meeting attendance met quorum with the following members present;

Committee Members Present

Roberto Ramirez
Francis Page
Shirley Ragin (appointed for today's meeting)

Committee Members Absent

John Melia (Chair)
Steve Neel (Vice Chair)
Maggie Toulouse Oliver
Tim Eichenberg

Other Board Members Present

Loretta Naranjo Lopez @ 9:30am
Paula Fisher @ 9:35am
Diana Rosales Ortiz @ 10:10am

Staff

Greg Trujillo, Acting Executive Director
Trish Winter, Executive Assistant
Anna Williams, CFO
Kristin Varela, Interim CIO
Misty Schoeppner, Deputy General Counsel
Karyn Lujan, SmartSave Plan Manager
Jessica Trujillo, HR Manager
Geraldine Garduno, Assistant General Counsel
Sarah Hume, Investments

Others in Attendance

Paul Cowie, Meketa
Charles Burciaga, Voya
Patricia French
Kevin Balaod, Journalist Pagaentmedia

4. Approval of Agenda.

Francis Page moved to approve the Agenda. Shirley Ragin seconded the motion. The motion passed by a unanimous roll call vote as follows;

Shirley Ragin Yes
Francis Page Yes
Roberto Ramirez Yes

5. Approval of the Consent Agenda.

Francis Page moved to approve the Agenda. Shirley Ragin seconded the motion. The motion passed by a unanimous roll call vote as follows;

Shirley Ragin Yes
Francis Page Yes
Roberto Ramirez Yes

6. New Business.

A. Adoption of Updated PERA SmartSave Committee Charter

Karyn Lujan, SmartSave Plan Manager, stated that this was a request from PERA’s auditors to all committees to review their charters and make necessary updates.

She gave a brief history of the SmartSave Committee and stated it was established in 2016 and its charter established in July 2018. Most of the redundancy and text deemed unnecessary was removed.

Only one sentence was added to the Charter stating that the Committee, at all times, shall adhere to the PERA Board Policies and Procedures while conducting PERA SmartSave business. Ms. Lujan felt that this was important to add since PERA's Board Policies and Procedures were the backbones of this Committee’s business.

She has presented the Charter to Chair John Melia, who had given the go-ahead to proceed.

Francis Page moved to approve the updated PERA SmartSave Committee Charter. Shirley Ragin seconded the motion. The motion passed by a unanimous roll call vote as follows;

Shirley Ragin Yes
Francis Page Yes
Roberto Ramirez Yes

B. Q4 FY21 (June 30, 2021) Investment Performance Review

Ms. Lujan reported that this is the performance review is for the June 2021 quarter since the Committee’s data reporting is two months behind. She introduced Paul Cowie of Meketa Investment Group. Meketa is PERA’s investment consultant.

Paul Cowie reviewed the structure of the plan’s lineup in four tiers.

Mr. Cowie also presented a summary of the Plan assets as of June 30, 2021. He noted that it was a positive quarter in the market. The assets were \$812.2 million, up slightly over \$39 million from the end of the first quarter. This was driven by investment gains as there was about \$2.2 million in outflows.

There are approximately 23,000 participants with a balance. The average balance is currently up to \$35,000. Mr. Cowie also presented the top five investment options. Lifecycle portfolios continue to be the largest option at 26.7%.

The New Mexico Stable Value Fund, which used to be the largest option, is now 10% less than the lifecycle portfolios. This is partly due to the continued inflows into the Lifecycle portfolios and partly due to the strong markets seen in the last year.

Positive returns were seen in the quarter and the rest of the trailing period. For the Lifecycle portfolios, the returns were between 3.4 and 6.2% for the second quarter. That brings the year-to-date numbers up to between roughly 4% to over 10% year to date, for the longer-dated funds.

Investment expenses of all the funds were compared to the peer median. In nearly all the cases, PERA's funds were cheaper than the average fund in the marketplace. Mr. Cowie stated that they plan to eliminate the revenue sharing category from the Plan as it is affecting some investment decisions.

Ms. Lujan stated she'd had a meeting with Chip from Voya and one of the participating employers. The employer had raised concerns on the Lifecycle portfolios, claiming that this Plan's portfolios are performing less than what they have been presented by other companies. Meketa has mentioned in previous meetings that the Plan's Target Date Funds and equity allocations are below the peer universe. Ms. Lujan further noted that where PERA is positioned, they may not be benefiting from when the equity stocks are up.

Ms. Lujan stated that the employer had indicated that they might stop participating with PERA SmartSave and go with a private third party for their 457B option. She added that the equity allocations should be reviewed to ensure that they benefit Plan participants.

She asked if the Committee would like staff to do some more studies and come back in December as an action item to reallocate the equity allocations.

Mr. Cowie stated the main risk of increasing equities is getting the timing wrong. For instance, increasing by 10% at year-end at a time when the market goes down would hurt the plan. He proposed showing the Committee some scenario analysis so they can weigh the pros and cons.

Kristin Varela pointed out PERA's historical tendency was to skew toward more conservative allocations and less dependency on equities across the board. She also felt the PERA Board should look at increasing equities but echoed the concerns around timing. She proposed reviewing the complete manager lineup and the mix of classes in the Target Date Funds. She stated the scenarios would be done at the beginning of the calendar year quarter one initiative.

Francis Page requested details on how the Lifecycle funds are structured. Ms. Lujan explained that seven Lifecycle Funds are designed to perform according to a specific year. For instance, a person who will retire 25 or 30 years from now is placed into a further dated target fund because they are younger, will be in their careers for many years and can afford to take more risk.

The further dated portfolios are therefore more aggressively positioned. There's more allocation to equity than the allocation to bonds. There is also real estate and other assets in there. As the years pass, the allocations also change modestly. Portfolios are rebalanced every January to become more conservative towards the target date. By the time one reaches the actual target date, it would be a conservative portfolio and the allocations would be more towards the bonds and less towards equity funds. All the funds are the same, only the allocation changes.

Ms. Varela further explained that equities are investible options that Meketa manages. The focus for these are individuals that can take on more risk because they have the benefit of time and are not retiring any time soon. There will be smaller allocations to equities and as the individuals move closer to retirement, the risk-oriented assets decrease.

C. Q4 FY21 (June 30, 2021) Plan Activity Review

Ms. Lujan reported the net asset value of the Plan continues to increase and is at \$812 million. The participant rate is staying steady at approximately 23,000 participants. This is not a very good number and is attributed that to the fact that the state and all physical work locations remain closed.

This affects the outreach crew as they are not able to physically go into buildings and make presentations to large groups. For April, May, and June, there were 368 enrollments. Pre-pandemic numbers were 800 to 900 new enrollments per quarter. This shows that the closed offices have had significant effects on enrollment.

However, July and August showed significant improvements with 385 new enrollments. September is expected to bring in more numbers.

Ms. Lujan stated at the last Committee meeting the digital engagement portion was discussed. She reported that even though the new enrollments are few, current participants are engaging in the digital outreach being presented to them. They are looking at their accounts and responding to the different messages being delivered to them. Ms. Lujan believed that part of the \$812 can be attributed to participants looking at their accounts and making changes, or adding contributions, or reallocating their investment options.

Chip Burciaga of Voya Financial added that the digital engagement speaks well to the changes that were made when the Plan switched to Voya and the mindset change of participants. The more people learn about how PERA SmartSave works, they're inclined to transfer money into the program thus leading to the growth of the Plan.

Mr. Burciaga pointed out that when Voya joined the Plan, assets were in the low \$600 million range. Now, the \$812 million growth reflects an increase in financial literacy that participants are getting from engagements with the Voya team.

Mr. Burciaga also noted that success was seen in other results. For instance, 73% of PERA's participants have chosen to get their documents from Voya electronically. This is a high number as Voya's other clients are still in the 30% range. It also reflects the responses to the outreaches and engagements.

Ms. Lujan further stated that going paperless exposes participants to all the different tools and messages. Once they log into their accounts to check their statements, they are triggered to navigate and check out different ways of improving their retirement pictures.

Mr. Burciaga added that having more people opting for e-delivery will cut down on the mailing costs and hence lead to potential fee reductions.

Ms. Lujan added that this Committee is different from the pension side because employees and members are intimately connected to these balances. As much as they know what's going on in PERA, these accounts enable them to log in to their personal accounts every day and see balances go up and down.

D. Plan Updates

Ms. Lujan reported on the updates as follows;

- a) US Small Cap Fund Replacement. This was warranted because the performance of DFA, Dimensional Fund Advisors, which is the current small cap fund, had fallen below the benchmark that the investment policy requires.

A fund manager search review and selection process took place between April and July of 2021. PRISM approved the replacement recommendation on July 30. The portfolio fit and review team gave final approval of the recommendation on August 5.

- b) PERA SmartSave Plan's FY21 Audit. The Plan is currently going through the FY 21 audit. Moss Adams, LLC is the Plan's auditor. This is year two of six years that the use of the same auditor is allowed.

Audit officially kicked off on July 30. It will be ready to be submitted to the New Mexico Office of the State Auditor by November 1.

- c) New Participating Employer. The City of Jal officially adopted the PERA SmartSave Plan. The employer is set up with Voya and the regional Plan representative will start her outreach efforts with them.
- d) Outreach Rep Vacancy for Northern Territory. Outreach representative retired. Hiring efforts are underway with Voya's Talent Acquisition team. The Central and Southern NM regional reps are covering this area until the vacancy is filled. If they are not available, Ms. Lujan will cover for them.

Mr. Burciaga stated that Voya has a resource pool that they can call upon if the need arises.

Ms. Naranjo Lopez stated that the line that was added to the Charter was not necessary. She also felt that it wasn't necessary to add it to the agenda. In response, Mr. Page pointed out that the review is a requirement by the auditors. It was also a small change so he did not see any issue with it.

Mr. Page also requested details on how the MIG MSI and Z Score were used in evaluating investments. Mr. Cowie explained that it is an informational item included in the report every quarter. It is usually sent to all clients and it shows various metrics on the capital markets and where things stand in terms of evaluation. It is not specific to the Plan and looks at market information in general.

Ms. Varela further explained that the Z score is used to determine statistical relevance between a return stream and a market opportunity. A stronger Z score implies that the opportunity comparison is similar and stronger or more evenly related. A lower one would prompt decisions on whether or not an appropriate market opportunity is aligned with the manager's return stream.

E. SmartSave Plan's Budget Structure Review

Ms. Lujan stated that the PERA SmartSave Plan has three components to its expenses;

- i. Voya Contract. This is the Plan's record keeper.
- ii. Meketa Contract- the Plan's investment consultant.
- iii. PERA's operating costs – including PERA employee's personnel salary and employee benefits (PSEB), the position's operating budget, ie: supplies, IT, travel, legal, etc.
These amounts are included during PERA's routine budget request or approval process.

The annual administrative fee is \$54.50 per participant. Voya keeps \$54.35 per participant while PERA keeps \$0.15. The \$0.15 came about when the local administrative Voya office was housed at PERA, thereby saving Voya rent money. Voya lowered its fee by \$0.15.

This fee is collected every quarter directly from participant accounts. Contrary to common belief, this annual fee does not cover all of the Plan's expenses. The Meketa Contract and PERA's operating costs are paid separately, outside of the administrative fee, with the Plan's mutual fund revenue.

In the Plan, five funds offer mutual fund revenue. The participants who use these funds as standalone options are 5204. These are the balances that pay the Meketa Contract and PERA's operating balances.

Ms. Lujan presented some reasons to consider retracting from the practice of using mutual fund revenue shares. These are:

- i. The industry in the current times has moved away from the practice as it is considered outdated and also not every participant uses every fund.
- ii. Retracting will enable PERA to implement changes to the fund lineup, free of concern with the revenue or budget implications.
- iii. It also enables the Plan to establish sustainable cash reserves. The Plan is currently living "paycheck to paycheck."
- iv. It improves fee transparency and fairness for Plan participants.

Ms. Lujan also overviewed the mutual fund revenue and noted that what the revenue shares have brought in as of March 2021. She stated that in Q3 2020, revenue shares only brought the \$24,000, giving another reason to retract. She pointed out that if the Plan stops using mutual fund revenue share, the lost revenue needs to be replaced in the form of direct payments from Plan participants. The fee will need to be collected from every single balance.

Ms. Lujan stated that from her calculations, each participant would need to be charged an additional \$2.375 per quarter to get that incoming revenue. Multiplying this by the number of chargeable participants gives about \$53,000.

Chargeable participants exclude new enrollments, whose fees are waived for the first two quarters or until their account balance reaches \$1000. The amount of charged participants is therefore different every quarter.

The increase would result in a fee of \$64 a year, or \$16 per quarter. Previously, when the Plan was with Nationwide, the fee used to be \$13 a quarter, thus the increase is not huge.

In 2017, PERA Board approved a hybrid structure whereby the fees charged depended on a participant's account balance. It was therefore \$10 flat rate for everyone, plus 0.135% of the balance, and it's capped at \$26. The fee fluctuates for the smaller balances and stays at \$26 for larger balances.

Ms. Lujan stated that if the Plan went back to a simple flat rate, it would just be \$16 a quarter. She believed that most participants don't understand the fee structure. They only understand that the fee will increase over time. She proposed consideration of going back to the flat rate of \$16, where the fee will be \$16 forever instead of increasing.

Ms. Lujan felt that implementing an asset-based fee would be most fair to all participants but it would be expensive for those with higher balances, hence why the Plan does not use this method. She asked the Committee if they would agree to move forward with the flat rate so that she can bring it back in December as an action item.

Acting Chair Ramirez was in favor of the item being brought back in December as an action item.

The Committee members agreed that the item be brought back in December as an action item. They were also in agreement with moving ahead with a flat fee. Ms. Ragin was in favor of the flat fee but added that she was still open to the hybrid if there was a compelling explanation for using it.

It was decided that Ms. Lujan would come back in December with the recommendation on the increase and the flat fee.

7. Adjournment

With no further business to discuss, Acting Chair Ramirez adjourned the meeting at approximately 10:39 AM.

Approved by:

Steve Neel

Steve Neel, SmartSave Committee Vice Chair

ATTEST:



Greg Trujillo, Executive Director